



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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December 8, 2000

The Honorable Gary Locke, Governor
Members of the Fifty-Sixth Legislature
State of Washington
Olympia, Washington 98504

In accordance with Chapter 43.88.027 of the Revised Code of Washington, the Office of Financial Management has prepared this COMPREHENSIVE ANNUAL FINANCIAL REPORT of the state of Washington for the fiscal year that ended June 30, 2000.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the state. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the state. All disclosures necessary to enable the reader to gain an understanding of the state's financial activities have been included.

The report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this transmittal letter. The Financial Section begins with the Independent Auditor's Report and contains the general purpose financial statements, notes to the financial statements, required supplementary information, combining financial statements, schedules for account groups, and other schedules. The Statistical Section includes selected financial, economic, and demographic data.

The state provides a wide range of services. These include education, social, health, transportation, environmental, law, public safety, resource and recreation development, public improvement, and general administrative services. The accompanying report includes all funds and account groups of the primary government, the state of Washington as legally defined, as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The determination of "financial accountability" is based on criteria established in Governmental Accounting Standards Board Statement No. 14. Note 1.A to the financial statements explains more fully which organizations are included in the reporting entity.

Governmental Structure

The state of Washington was created by an enabling act of Congress in 1889. The state is located on the Pacific Coast in the northwestern corner of the continental United States. Washington comprises 68,139 square miles and currently has a population of 5.8 million. Washington is famous for its scenery of breathtaking beauty and sharp contrasts. On the west side of the state, high mountains rise above coastal waters. The forests of the Olympic Peninsula are among the rainiest places in the world. Washington's coastline has hundreds of bays and inlets that make excellent harbors. In the eastern part of the state, the flat semi-desert land stretches for long distances without a single tree.

Washington's location makes it a gateway for land, sea, and air travel to Alaska and the Pacific Rim countries. Ships from all parts of the world dock at Washington ports. The Boeing Company, a leading producer of commercial airliners and spacecraft, has its headquarters in Seattle and plants in Auburn, Kent, Renton, Everett, and Spokane. Microsoft, a leader in the computer software industry, makes its home in Redmond. The Weyerhaeuser Company, a major producer of wood and related products, is headquartered in Federal Way. Costco Wholesale Corporation, headquartered in Issaquah, operates an international chain of membership warehouses.

East of the Cascade Mountain Range, farmers raise livestock and wheat on large ranches. Washington leads the nation in apple production. The state produces large amounts of lumber, pulp, paper, and other wood products. The mild moist climate in western Washington makes the region excellent for dairy farming and the production of flower bulbs.

The state currently receives about 59 percent of its income in governmental funds from taxes and 27 percent from federal grants. The main tax sources are retail sales taxes, business and occupation taxes, property taxes, and motor vehicle taxes.

As established in the State Constitution, the state consists of three branches of government: the Executive Branch, the Legislative Branch, and the Judicial Branch. The Executive Branch has nine elected officials as follows: the Governor, Lieutenant Governor, Secretary of State, State Treasurer, State Auditor, Attorney General, Superintendent of Public Instruction, Commissioner of Public Lands, and Insurance Commissioner. Forty-one agency heads are appointed by, and report to, the Governor. Eighty-one agency heads report to a board appointed in whole or in part by the Governor. The Legislature consists of two legislative bodies: the Senate consisting of 49 members, and the House of Representatives with 98 members. The State Supreme Court is the highest court in the state currently consisting of nine Justices. Every two years, three Justices are elected for six year terms. A Chief Justice is chosen from among the most senior Justices.

Economy and Revenue Outlook

Fiscal Year 2000 proved to be another good year for Washington State's economy. Employment grew by 2.3 percent, about the same as Fiscal Year 1999 but more than a percentage point below employment growth rates in Fiscal Years 1997 and 1998. But, real personal income grew at a rate of 8.1 percent, a rate comparable with those recorded in the last three fiscal years. However, Fiscal Year 2000 marks a turning point in the state's economy. Both employment growth and real personal income growth are predicted to slow substantially, falling to rates much closer to U.S. growth rates in the next three fiscal years. The slowdown in the state's economy is expected to hold the growth rate of General Fund-State revenues in the 1999-2001 Biennium significantly below the growth rate in the previous biennium. The growth rate of General Fund-State revenues is expected to grow at an even slower rate than in the 1999-2001 Biennium due to the passage of several initiatives in the 2000 general election.

Economic Condition in Fiscal Year 2000

Washington's wage and salary employment are at approximately the same rate as U.S. wage and salary employment, each with growth rates of 2.3 percent in Fiscal Year 2000. This is significantly less than the 3.8 percent growth in Washington's wage and salary employment just two years ago in Fiscal Year 1998. Despite the deceleration in employment growth almost 61,000 new jobs were added in Washington State in Fiscal Year 2000.

Although the wage and salary employment growth rates of the state and nation moved to very similar levels during Fiscal Year 2000, personal income in Washington grew by 8.1 percent compared to national growth of 5.9 percent. Real per capita income rose by 4.8 percent over the same period as compared to 2.7 percent for the nation as a whole.

Aerospace employment was a major factor in the year's slowdown in employment growth. After adding more than 15,000 employees in Fiscal Year 1998, employment in the aerospace industry fell by 3,200 in Fiscal Year 1999 and 17,900 in Fiscal Year 2000. Led by the aerospace employment decline, manufacturing employment in Washington lost 16,500 jobs in Fiscal Year 2000, a reduction of 4.4 percent. Non-manufacturing employment grew at a steady pace of 3.4 percent, contributing more than 77,000 jobs to the state's economy.

Employment in durable manufacturing other than aerospace grew by 1.0 percent in Fiscal Year 2000 while employment in durable manufacturing nationally declined by 0.4 percent. Within this sector of the state economy, some of the strongest employment growth occurred in electrical machinery (2.1 percent), which includes electronic and electrical equipment. Employment in miscellaneous durable manufacturing grew by 4.5 percent. Six other durable manufacturing sectors experienced employment growth between 0.5 percent and 1.5 percent. The only significant decline in employment in a durable manufacturing sector outside of aerospace occurred in primary metals, which declined by 2.4 percent in Fiscal Year 2000. Employment in other transportation equipment declined by 0.4 percent and employment in instruments dropped by 0.8 percent.

Non-durable manufacturing employment in Washington increased by 0.3 percent in Fiscal Year 2000. Nationally, non-durable manufacturing employment declined by 1.7 percent. In Washington, the strongest non-durable manufacturing employment growth occurred in chemicals, 2.8 percent growth, and miscellaneous non-durable manufacturing, 3.6 percent growth. Employment in apparel and pulp and paper declined by 4.1 percent and 1.5 percent, respectively in Fiscal Year 2000. Employment in food and kindred products increased by 0.4 percent while employment in printing and published grew by 0.6 percent.

Non-manufacturing employment increased by 3.4 percent during Fiscal Year 2000, led by employment growth of 6.2 percent in construction, and 4.8 percent in services. Retail trade employment grew by 3.3 percent, while employment in transportation, communications and public utilities rose by 4.3 percent. Employment growth was slowest in state and local government, 1.9 percent, and wholesale trade, 0.9 percent. Federal government civilian employment actually grew by 2.2 percent in Fiscal Year 2000, reflecting the hiring of temporary workers for the 2000 Census.

Economic Outlook

Despite the strong economic performance of the last three years at both the national and state levels, the state forecast for the next three fiscal years is tempered by the expectation of weaker economic growth at the national level and higher energy prices. According to the November 2000 forecast by the state Economic and Revenue Forecast Council (ERFC), growth in Washington's wage and salary employment is predicted to fall to 1.7 percent in Fiscal Year 2001 and Fiscal Year 2002, then increase slightly to 1.8 percent in Fiscal Year 2003. Washington's employment is expected to grow slightly faster than national employment in Fiscal Year 2001, but grow at rates almost one full percentage point faster than national employment growth projections for Fiscal Years 2002 and 2003. National employment growth is forecast to be 1.4 percent in Fiscal Year 2001, falling to 0.7 percent growth in Fiscal Year 2002 and 0.9 percent in Fiscal Year 2003.

Personal income growth in Washington State is also expected to slow until it reaches the national average for those years. The ERFC's economic forecast indicates that personal income in Washington will grow by 4.2 percent in Fiscal Year 2001, slower than the 6.2 percent growth expected for U.S. personal income. However, Washington personal income growth is predicted to rebound to 5.8 percent in both Fiscal Year 2002 and 2003. This compares to nationwide projections of 5.5 percent and 5.4 percent growth in personal income for those respective years.

Manufacturing employment in Washington is projected to continue its decline into Fiscal Year 2001, due in large part to reductions in aerospace employment. The ERFC suggests that aerospace employment will decline by another 3,700 workers in Fiscal Year 2001. However, aerospace employment is predicted to hold steady in Fiscal Year 2002 and increase slightly in Fiscal Year 2003. Other manufacturing sectors are expected to decline by about 1,600 in Fiscal Year 2001 but rebound with growth of about 800 jobs in Fiscal Year 2002 and then decline slightly by 400 jobs in Fiscal Year 2003. The strongest and most consistent growth in non-aerospace manufacturing employment for the next three

years is expected to occur in the electrical machinery and non-electrical machinery manufacturing sectors.

In the non-manufacturing sectors, the strongest growth is predicted to occur in services. Services employment is forecast to expand by 3.7 percent in Fiscal Year 2001, 2.9 percent in Fiscal Year 2002, and 3.4 percent in Fiscal Year 2003. Retail trade employment should increase by 1.4 percent, 1.5 percent, and 1.7 percent in those fiscal years, respectively. Construction employment is expected to continue with strong growth of 4.7 percent in Fiscal Year 2001 but drop to 1.3 percent growth in Fiscal Year 2002, and 1.1 percent in Fiscal Year 2003. Employment growth in transportation, communications and public utilities employment is predicted to grow by 3.5 percent in Fiscal Year 2001 but slow to 1.7 percent in the following two fiscal years. Finance, insurance and real estate employment growth is predicted to increase by 1.0 percent in Fiscal Year 2001, but then accelerate to 2.6 percent growth in Fiscal Year 2002 and 2.4 percent in Fiscal Year 2003. State and local government employment are expected to grow at rates around 1.0 percent Fiscal Years 2001 and 2002, but increase by 1.4 percent in Fiscal year 2003. Federal government civilian employment is forecast to decrease by 2.8 percent in Fiscal Years 2001 after the federal government completes the decennial census. Federal government civilian employment is then expected to remain flat in Fiscal Year 2002 and increase slightly in Fiscal Year 2003.

General Fund-State Revenues

General Fund-State revenues for the 1999-2001 Biennium are forecast to be \$21.2 billion, an increase of 7.9 percent in nominal terms over the previous biennium. General Fund-State revenues increased by 11.2 percent in the 1997-99 Biennium. The revenue growth rate for the 1999-2001 Biennium is relatively slow by historical standards, due primarily to the effects of five consecutive years of significant tax reductions and the slowing state economy. The reduction in aerospace employment is a major contributor to the general slowing in the state economy. The General Fund-State revenue growth rate for the 1999-2001 Biennium will be the second smallest growth rate for any biennium covering the 1990s.

Based on the November revenue forecast, Washington will have an estimated reserve of \$1,087.2 million by the end of the 1999-2001 Biennium, up from \$997.7 million in the previous biennium. Another \$242.7 million will be deposited in the Education Construction Account.

General Fund-State revenues are expected to increase to \$22.3 billion in the 2001-2003 Biennium. This is an increase of only 5.5 percent over the 1999-2001 Biennium. This slow growth in revenue is due to the approval by voters of Initiative 722 and Initiative 728 in the November 2000 general election. Excluding the revenue impacts of these two initiatives, General Fund-State revenue would have grown by 7.7 percent in the 2001-2003 Biennium compared to the 1999-2001 Biennium.

Initiative 722 rolls back any state and local tax and fee increases adopted between July 2, 1999, and December 31, 1999, and requires them to be refunded to taxpayers. Higher

education tuition, civil and criminal fines, charges collected for restitution, violation of law, or violation of contract, and the price of goods offered for sale by the state are not considered tax increases in the initiative. The increase in value for property taxing purposes for each individual property is limited to the lesser of two percent or the rate of inflation. Generally, state and local regular property tax levy increases are each limited in the aggregate to the lesser of two percent or the rate of inflation.

The refund provision of Initiative 722 will reduce General Fund-State revenues by \$4.8 million in the 2001-2003 Biennium. The limitations on property taxes will reduce General Fund-State revenues by \$34.4 million. Several local governments have challenged the constitutionality and validity of Initiative 722. The outcome of these lawsuits is uncertain at this time.

Initiative 728 would direct a portion of the state property tax to a new Student Achievement Fund to be used for new allocations to school districts for class size reduction, extended learning opportunities, and professional development. It would also dedicate state lottery revenues, which are currently deposited in the state General Fund, to the new Student Achievement Fund and to school construction. The amount of state property taxes directed to the Student Achievement Fund would total \$238.8 million in the 2001-2003 Biennium. Transfer of lottery revenues will reduce General Fund-State revenues by \$204.3 million. The combined effect of these two actions will reduce General Fund-State revenues by \$443.1 million in the 2001-2003 Biennium.

Major Initiatives

Washington made significant strides in Fiscal Year 2000 in its long term effort to improve the state's public education system, spread urban prosperity to rural areas, improve the tax climate for businesses, reduce unemployment and public assistance rolls, and protect the environment.

Public Education

The 2000 Legislature and Governor Gary Locke provided legislation and funding to build more public schools, reduce class size, and strengthen teacher-quality, all intended to further the quality of the state's public schools – Governor Locke's top priority.

The Legislature and governor created a "Better Schools Program" to provide \$57.5 million in flexible funding for local school districts to reduce class size, provide more extended learning opportunities, and increase the professional development of teachers. In addition, they created a Teacher Testing and Professional Standards Board to ensure that new teachers have basic skills and content knowledge as defined by the standards board. The Governor signed legislation amending state law to provide that surplus revenue flowing to the state above a five percent annual emergency reserve fund be dedicated to school construction, providing \$334 million over the next five years to construction.

The Governor and Legislature also took additional steps to improve safety in schools, appropriating \$5.65 million to supplement spending for school security staff and programs.

Other steps to improve public schools included additional funding for bonuses for National Board Certified Teachers; for information technology workforce training; and for local districts to finance increased use of substitute teachers.

Action to benefit Washington's two- and four-year institutions of higher education included additional funding to finance Washington Promise Scholarships. The awards are given to high school seniors in the top 15 percent of their class, or who score above 1,200 on SAT scores, and who meet certain income criteria. The two-year awards, which amounted to \$1,500 a year in 2000, have been granted to nearly 5,700 seniors and first-year college students in the past two academic years. The awards can be used at any public or private college or university in Washington.

Among other steps to improve higher education, the Legislature and the Governor provided additional funding to train workers for jobs in high-demand fields; to provide more instructional capacity for teaching in high-demand fields; and to perform needed maintenance of physical plants at several institutions of higher learning.

Welfare Reform through WorkFirst

Washington State has completely restructured its public assistance system over the past three years to encourage — and require — that anyone capable of working do so as a condition of receiving state benefits. Like most states, Washington's *WorkFirst* program includes a lifetime limit on public assistance, mandatory job-search requirements, and new sanctions on non-custodial parents who do not make their child-support payments. Under the WorkFirst Program, the state's public assistance caseload fell by an unprecedented 43 percent from January 1997 through August 2000. More than 100,000 participants have gone to work.

Washington's welfare reform emphasizes reducing poverty — not just reducing caseloads. Washington has led the way in creating innovative, customized job training so working parents can move up the career ladder. It was the first state to create thousands of jobs in communities for people not yet ready for private employment. The federal Departments of Labor and Health and Human Services recognized Washington State as a leader in innovation receiving several cash awards totaling more than \$10 million.

Economic Development

Governor Locke won bipartisan support for a significant business tax cut, as well as funding to help train skilled workers for the new economy. The Governor also made

significant progress in creating “One Washington” by setting the stage for development of needed telecommunications infrastructure to entice new and expanding business to rural areas.

The Governor signed legislation reducing the state unemployment insurance tax by \$576 million over the next six years. The action also cancelled an average 23-percent increase in the Unemployment Insurance employer contribution rate that was scheduled to take effect in January of 2000. Additional unemployment benefits totaling \$140 million over six years, which were drawn from the Unemployment Insurance Trust Fund, were made available to dislocated workers enrolled in retraining programs in high-demand fields.

The governor and Legislature took a critical step to narrow the “digital divide” between urban and rural Washington. They authorized public utility and port districts in rural counties to provide wholesale telecommunications services, thus filling the gap left by lack of private investment in rural areas.

The legislation allows telecommunications companies to seek alternatives to traditional regulation to encourage infrastructure investment in rural areas. It also streamlined permitting timelines and procedures for telecommunications facilities to better avoid unnecessary expense and delay.

Other actions to promote economic development in Washington included additional funding for the State Work Force Training and Education Coordinating Board to build partnerships between businesses and education institutions to meet the training needs of local industries. Actions also included continuation of the Washington Community Economic Revitalization Team, which helps rural communities identify, coordinate, and package state and federal resources to accommodate local economic development projects.

Salmon Restoration

As of November 1999, the federal government had listed 18 salmon, steelhead and bull trout stocks as threatened or endangered under the Endangered Species Act (ESA). Those listings are in addition to listings of nine stocks in previous years. In response, the Governor and Legislature continued planning and funding initiatives begun in 1998 to restore the wild salmon runs to health. The 1999-01 Biennial Budget includes \$247 million in state, federal and local funds to address new actions required by the ESA. These funds will be used by state agencies, tribes and local governments to conduct watershed planning, restoring and acquiring salmon habitat, and meeting state agency obligations under the ESA. The campaign to restore salmon runs included creation of a governor-appointed Salmon Recovery Funding Board to help ensure that \$28.5 million in grants to local jurisdictions and tribes for salmon recovery is spent effectively. The federal government, the state, and Washington's timber industry reached an historic agreement in which this vital industry agreed to tough new restrictions on logging near salmon habitat in exchange for regulatory certainty.

Quality Initiatives

Governor Locke continues a four-year-old effort to improve the way Washington State government does business. Since 1997, all Cabinet agencies have been required to have quality consultants on staff to encourage innovation by state employees and share successful initiatives with other agencies on a quarterly basis. The program has produced more than 800 quality projects that have saved the state over \$42 million. Performance measures developed by agencies for key program activities are used as a part of the budget process. In addition, state agencies have completed a four-year program designed to review all state regulations, eliminate those that are unnecessary, and rewrite those that remain on the books in a manner more easily understood by the public. The regulatory improvement program has resulted in the elimination of over 4,600 rules, the rewriting of more than 5,200 regulations in plain English, simplified regulatory processes, and new Internet applications designed to make state government more accessible to citizens and businesses.

In 1997, the Governor implemented a new program that provides new incentives for state agencies to conserve funds remaining at the end of each fiscal year rather than spend them on non-essential items. Under the Savings Incentive Plan, agencies are allowed to retain half of the funds saved through efficiency measures to be used for training, computer equipment and other needs, with the remainder going into an account to support common school construction, higher education, and education-technology projects. Savings for Fiscal Year 2000 were \$25.3 million.

Transportation Funding

The Governor and Legislature agreed on a new ongoing source of revenue for transportation -- the interest earnings on the Emergency Reserve Fund -- to partly address the impact of legislation which abolished the Motor Vehicle Excise Tax (MVET).

With further government efficiencies and streamlining and some support from the General Fund, these new dollars are keeping alive priority highway projects, assisting transit across the state, sustaining the ferry system and passenger rail program, and breaking ground on important freight mobility projects.

The new funding does not come close to filling the gaps left by the elimination of the MVET, which took effect in January. Many cuts have been made, and many projects postponed. A Blue-Ribbon Commission on Transportation, appointed by the 1998 Legislature, is preparing to issue recommendations to adequately finance the state transportation system over a 20-year horizon.

Technology

Home to Microsoft and other software industry leaders, Washington has been and continues to be a pioneer in recognizing the enormous potential of information technology in revolutionizing the delivery of government services. Major progress in Washington State's technological development over the past year include:

- Expansion of the K-20 Educational Telecommunications Network. The Network provides public schools at every level with access to learning tools including Internet and Intranet, interactive videoconferencing and satellite-delivered distance learning services. With the completion of Phase 2, the network now provides access to educational institutions at 412 locations statewide. The network currently connects 64 community and technical college sites, 44 campuses of the baccalaureate institutions, and 304 K-12 sites.
- Continued efforts to increase state government's use of electronic transactions to reduce the flow of paper and save money. Four key agencies, the Office of Financial Management, the Department of General Administration, the State Treasurer and the Department of Information Services are working to make electronic billing and payment a routine part of state agency operations. Eventually, the approach will be expanded to include private-sector suppliers. Initial implementation of the electronic inter-agency payment process is scheduled for early 2001.
- Continued improvements to *Access Washington*, an interactive virtual business center that offers citizens and businesses convenient access to government services, information, and transactions over the Internet.
- For the third straight year, a national survey ranked Washington the top state in the country for using information technology to deliver public services. The ranking, called the Digital State Survey, has been conducted for the past three years by the Progress and Freedom Foundation, a national organization of policy and technology experts.

For the Future

As he prepares to begin his second four-year term, Governor Locke continues to emphasize three major themes: improving Washington's educational system, maintaining the state's strong financial position, and improving Washington's transportation system.

His goal to increase a teacher's ability to focus attention on individual students received an important boost with the November 7, 2000, passage of citizen Initiative 728, which will result in major new investments to provide teachers and students with smaller classes and other benefits. The Governor will work with the 2001 Legislature to ensure speedy implementation of the initiative's provisions.

The Governor's goals for maintaining a strong economy include continued expansion of programs to train and retrain workers needed to meet the increasing demand for high-technology skills. He also will continue his efforts to spread the state's vibrant economy to rural Washington.

As he steps up efforts to meet growing transportation needs, Governor Locke intends to embrace the pending recommendations of a panel of transportation stakeholders and push for long-term transportation improvements at the 2001 Legislature. The goal is to put in place transportation improvements in the areas of administration, investment, and revenue that can be sustained for a twenty-year period.

Financial Information

Internal Controls

The state is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the state are protected from loss, theft, or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Washington State continues to assess the adequacy of its internal control structure and make improvements where weaknesses are found. These actions will help assure that the state maintains public accountability for years to come.

Budgeting Controls

Budgetary control is maintained through legislative appropriations and the executive branch allotment process. The Governor is required to submit a biennial budget to the Legislature. The budget is legally required to be adopted through passage of appropriation bills by the Legislature with approval by the Governor. Appropriated funds are controlled by the executive branch through an allotment process. This expenditure plan details the appropriation into monthly estimates by program, source of funds, and object of expenditure. Nonappropriated governmental funds are also subject to allotment control by the executive branch. The state also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at the end of the appropriation. However, capital encumbrances are generally reappropriated as part of the following biennial budget.

The state's budgetary policies and procedures, fund accounting structure, and basis of accounting are explained in detail in Note 1 to the financial statements.

Governmental Funds

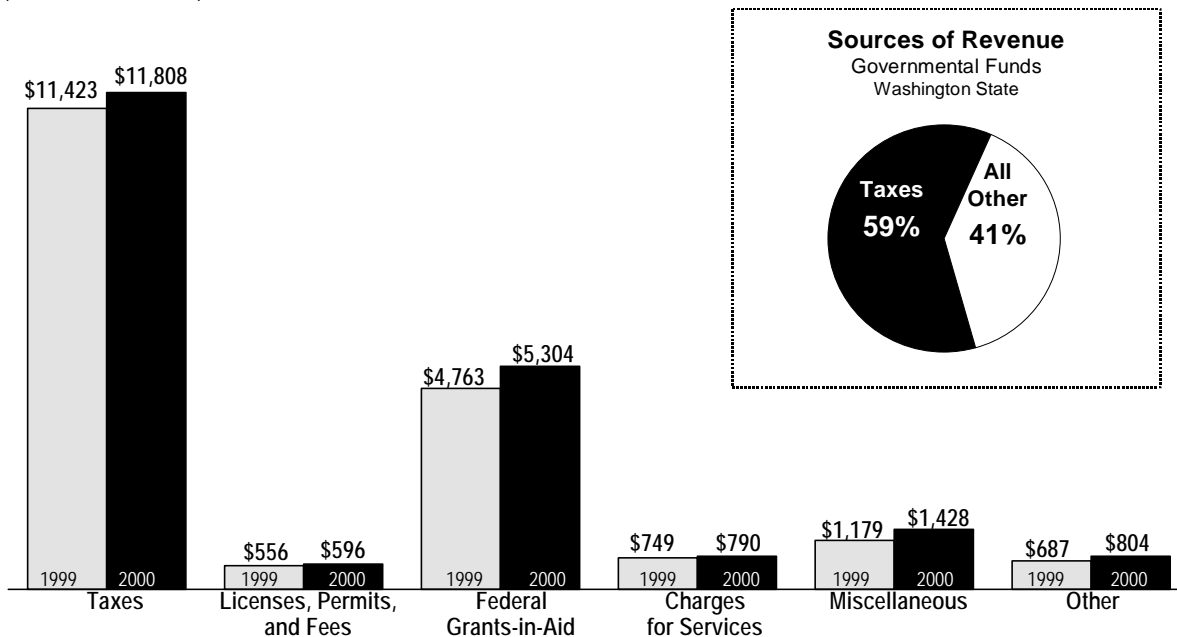
Governmental activities are accounted for in four governmental fund types: the general, special revenue, debt service, and capital projects funds. Revenues for governmental funds totaled \$19.9 billion for the fiscal year that ended June 30, 2000. This represents an increase of 6.7 percent over revenue for the fiscal year that ended June 30, 1999.

All Governmental Funds Revenues (Millions of Dollars)	Fiscal Year 2000		Fiscal Year 1999		Increase (Decrease) From 1999
	Amount	% of Total	Amount	% of Total	
Taxes	\$ 11,808	59.3%	\$ 11,423	61.2%	\$ 385
Licenses, Permits, and Fees	596	3.0%	556	3.0%	40
Federal Grants-in-Aid	5,304	26.6%	4,763	25.5%	541
Charges for Services	790	4.0%	749	4.0%	41
Miscellaneous Revenues	1,428	7.1%	1,179	6.3%	249
Total Revenues	19,926	100.0%	18,670	100.0%	1,256
Net Other Financing Sources (Uses)	804		687		117
Total Revenues and Other Sources (Uses)	\$ 20,730		\$ 19,357		\$ 1,373

Taxes, the largest source of governmental revenue, produced 59 percent of revenues. Although the percentage decreased slightly from Fiscal Year 1999, actual tax revenues increased by \$385 million. This increase is consistent with the growth in the state's population and personal income during Fiscal Year 2000, which increased retail sales and use tax collections by \$478 million.

Revenues - All Governmental Funds

For the Fiscal Years that ended June 30, 1999 and 2000
(Millions of Dollars)

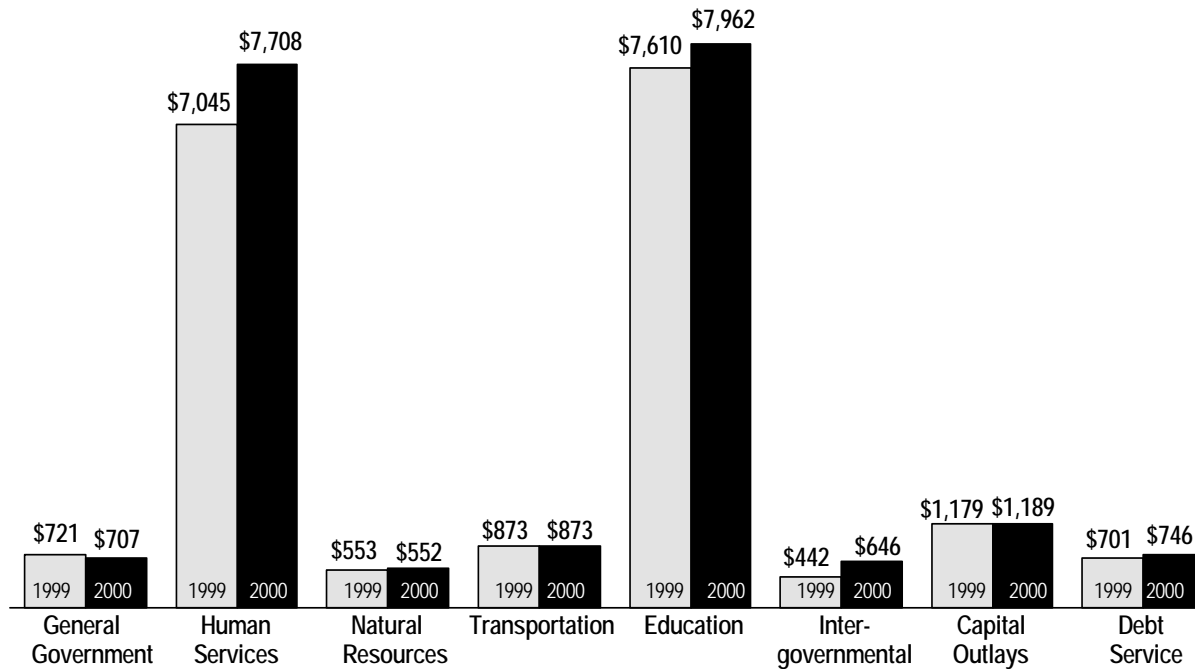


All Governmental Funds Expenditures (Millions of Dollars)	Fiscal Year 2000		Fiscal Year 1999		Increase (Decrease) From 1999
	Amount	% of Total	Amount	% of Total	
Current:					
General Government	\$ 707	3.5%	\$ 721	3.8%	\$ (14)
Human Services	7,708	37.8%	7,045	36.8%	663
Natural Resources	552	2.7%	553	2.9%	(1)
Transportation	873	4.3%	873	4.6%	-
Education	7,962	39.1%	7,610	39.8%	352
Intergovernmental	646	3.2%	442	2.3%	204
Capital Outlays	1,189	5.8%	1,179	6.2%	10
Debt Service	746	3.6%	701	3.6%	45
Total Expenditures	\$ 20,383	100.0%	\$ 19,124	100.0%	\$ 1,259

In Fiscal Year 2000, demands continued to increase for education and certain human service programs, including medical assistance, job training and child care for low income working families. Specifically, expenditures for human services increased \$547 million at the Department of Social and Health Services. Also, education expenditures increased by \$352 million with higher enrollments in local school districts and the state's colleges and universities. All expenditures for governmental activities totaled \$20.4 billion for the fiscal year that ended June 30, 2000, or a 6.6 percent increase over Fiscal Year 1999.

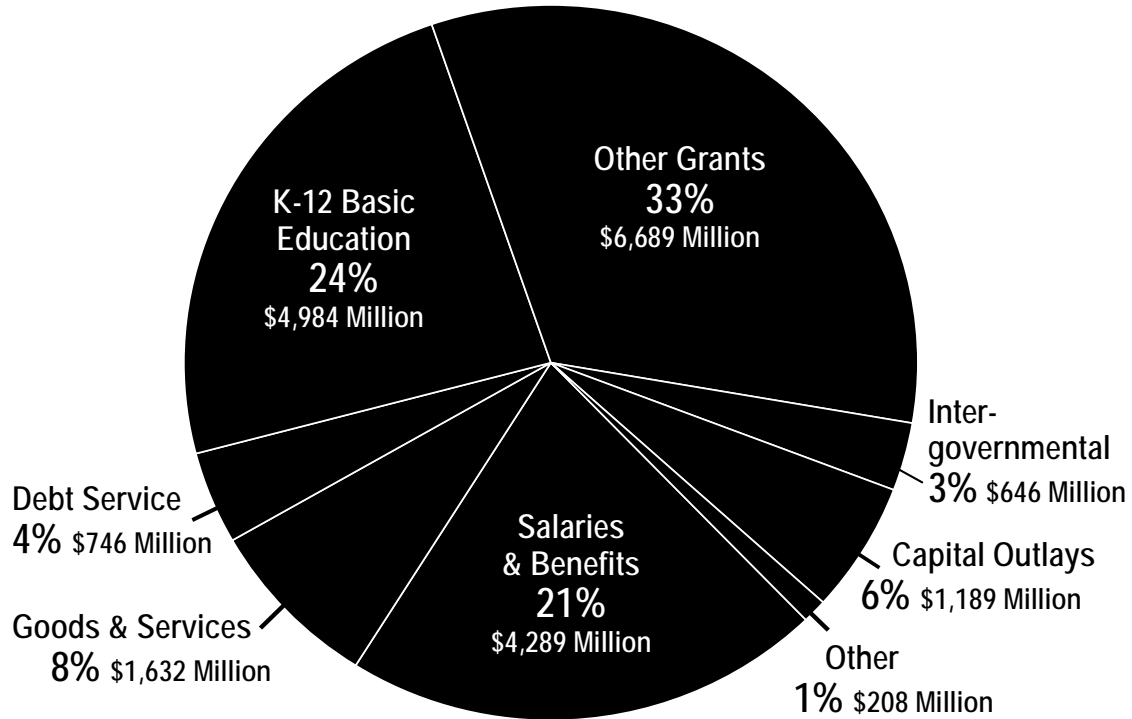
Expenditures - All Governmental Funds by Function

For the Fiscal Years that ended June 30, 1999 and 2000
(Millions of Dollars)



**Expenditures - All Governmental Funds
by Object**

For the Fiscal Year that ended June 30, 2000
TOTAL = \$20,383 Million



OFFICE OF FINANCIAL MANAGEMENT

DECEMBER 2000

Consistent with the functional distribution of costs, grants for K-12 education and other purposes are the major expenditures of governmental funds. The grants for K-12 education are apportioned to local school districts based primarily on student enrollment. The other grants are mainly public assistance payments and amounts passed through to other governments and nonprofit organizations.

General Fund

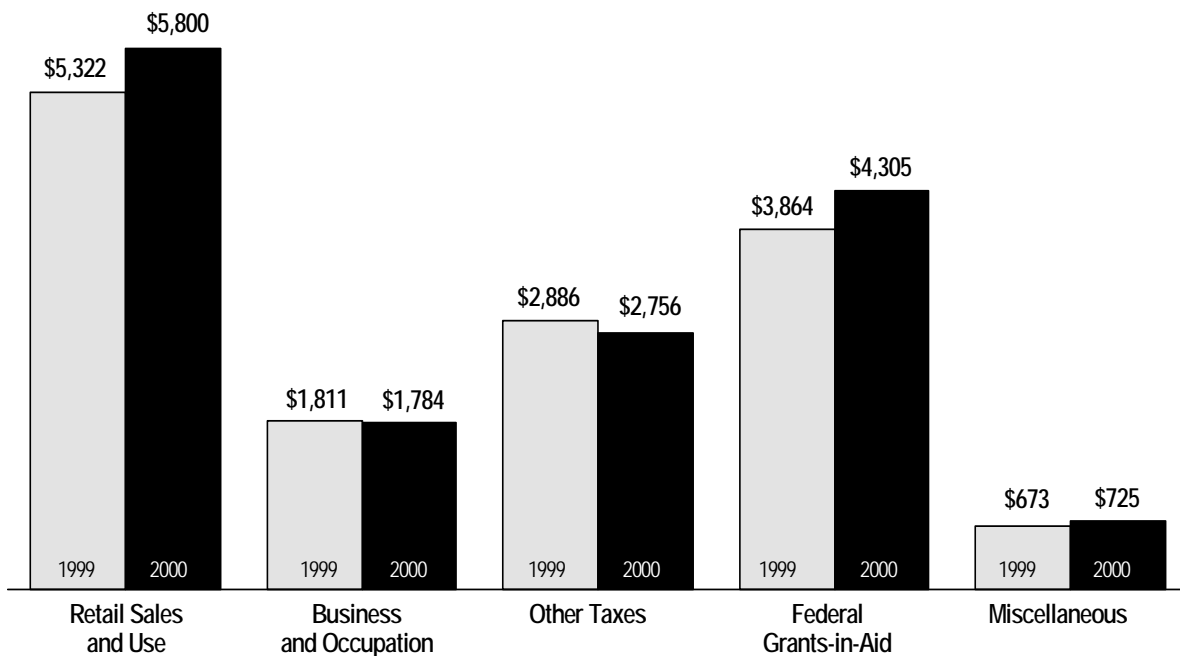
The General Fund accounts for all general government financial resources and expenditures not required to be accounted for in other funds.

General Fund Revenues (Millions of Dollars)	Fiscal Year 2000		Fiscal Year 1999		Increase (Decrease) From 1999
	Amount	% of Total	Amount	% of Total	
Retail Sales & Use Taxes	\$ 5,800	37.7%	\$ 5,322	36.6%	\$ 478
Business & Occupation Taxes	1,784	11.6%	1,811	12.4%	(27)
Other Taxes	2,756	18.0%	2,886	19.9%	(130)
Federal Grants-in-Aid	4,305	28.0%	3,864	26.5%	441
Miscellaneous Revenues	725	4.7%	673	4.6%	52
Total Revenues	\$ 15,370	100.0%	\$ 14,556	100.0%	\$ 814

Fiscal Year 2000 revenues in the General Fund increased by \$814 million or 5.6 percent. Retail sales and use taxes in the General Fund increased by \$478 million or 9 percent and federal grants-in-aid increased \$441 million or 11.4 percent. Retail sales and use taxes continue to be the largest source, amounting to 37.7 percent of General Fund revenues.

General Fund Revenues

For the Fiscal Years that ended June 30, 1999 and 2000
(Millions of Dollars)

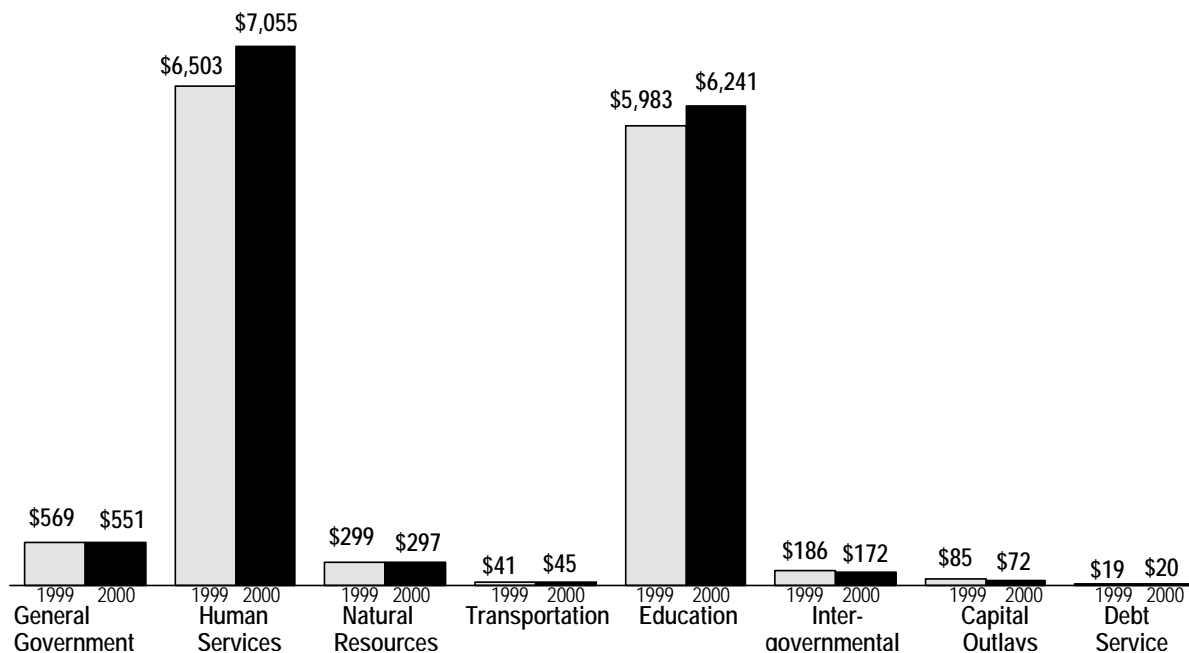


General Fund Expenditures (Millions of Dollars)	Fiscal Year 2000		Fiscal Year 1999		Increase (Decrease) From 1999
	Amount	% of Total	Amount	% of Total	
Current:					
General Government	\$ 551	3.8%	\$ 569	4.2%	\$ (18)
Human Services	7,055	48.8%	6,503	47.5%	552
Natural Resources	297	2.1%	299	2.2%	(2)
Transportation	45	0.3%	41	0.3%	4
Education	6,241	43.2%	5,983	43.7%	258
Intergovernmental	172	1.2%	186	1.4%	(14)
Capital Outlays	72	0.5%	85	0.6%	(13)
Debt Service	20	0.1%	19	0.1%	1
Total Expenditures	\$ 14,453	100.0%	\$ 13,685	100.0%	\$ 768

Expenditures for General Fund activities total \$14.5 billion for the fiscal year that ended June 30, 2000, representing a 5.6 percent increase from Fiscal Year 1999. Of these expenditures, 43.2 percent went to support local school districts and higher education, and 48.8 percent was expended for human services. Expenditure increases in the General Fund parallel the increases in education and human services discussed earlier under All Governmental Funds.

General Fund Expenditures by Function

For the Fiscal Years that ended June 30, 1999 and 2000
(Millions of Dollars)



The fund balance of the General Fund, including all reserves and designations, totaled \$2.94 billion as of June 30, 2000, representing an increase of \$262 million, from that of the previous fiscal year end.

These figures include an additional \$189.3 million in General Fund-State (GF-S) revenues transferred to the state's Emergency Reserve Fund during Fiscal Year 2000 under the provisions of Initiative 601, approved by Washington voters in the November 1993 general election. Effective Fiscal Year 1996, Initiative 601 limits annual increases in GF-S expenditures to the average rate of inflation plus population growth for the previous three years. It also requires GF-S revenues in excess of the spending limit for any given year to be deposited in the Emergency Reserve Fund. If the balance in the Emergency Reserve Fund exceeds 5 percent of biennial GF-S revenues, the excess is required to be deposited in the Education Construction Fund.

Since Fiscal Year 1996, the state has consistently held expenditures within the GF-S spending limit. Interest earnings on revenues transferred to the Emergency Reserve Fund accrue to that account.

Enterprise Operations

The state's enterprise operations are comprised of seven separate and distinct activities ranging from operation of the Convention and Trade Center to operation of the State Lottery to management of the State Workers' Compensation program and the State Ferry System. A brief description of each enterprise operation is presented in Note 18 to the financial statements.

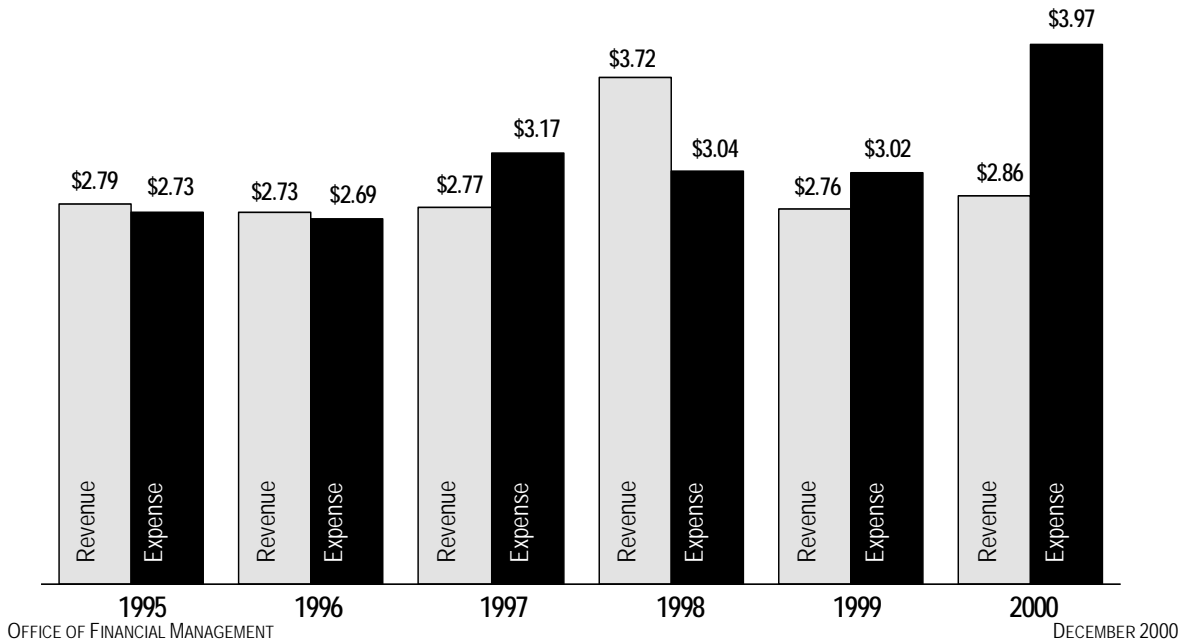
Combined operating and nonoperating revenues, including earnings (loss) on investments, for the state's enterprise funds increased from \$2.76 billion in Fiscal Year 1999 to \$2.86 billion in Fiscal Year 2000. This \$10 million increase is primarily due to an increase in Labor & Industries insurance premiums. Combined enterprise activities' operating and nonoperating expenses increased from \$3.02 billion in Fiscal Year 1999 to \$3.97 billion during Fiscal Year 2000. This \$950 million increase is primarily due to an increase in workers' compensation claims.

Outstanding enterprise fund bonds at June 30, 2000 totaled \$452 million. These bonds were issued primarily to provide construction funds for educational and convention facilities, and the Department of Labor and Industries building.

Enterprise Fund Operations

Revenues and Expenses

For the Fiscal Years that ended June 30, 1995 through 2000
(Billions of Dollars)



Retirement Systems

Valuations are performed for most of the state's pension systems on a calendar year basis. However, the Teachers' Retirement System (TRS) is on a fiscal year basis. At the close of Fiscal Year 2000, using results from the most recent actuarial valuations, the total actuarial value of investments in the state's pension trust funds reached \$41.5 billion. The latest Actuarial Accrued Liability exceeded the value of assets available for benefits by \$830 million. The funding ratio for all funds combined was 98 percent.

Debt Administration

During Fiscal Year 2000, the state of Washington maintained its "AA+" rating from Fitch Investors Service and Standard & Poor's Ratings Group, and its "Aa1" rating from Moody's Investors Service. According to Moody's, "the state's high grade rating is based on its economic resources and sound financial performance. These strengths, coupled with firmly institutionalized conservative fiscal practices, offset above average debt levels, economic concentration in the aerospace and high technology sectors, and the anticipated slowdown in economic growth in the near term." (Moody's "New Issue" report, September 18, 2000.)

The Office of the State Treasurer continued its administration of the state Lease-Purchase Program which has been in existence since Fiscal Year 1990. This program enables state agencies to realize substantial savings by financing the acquisition of real and personal property at tax-exempt interest rates. In the real estate component of the financing program, certain projects have been rated “Aa2” by Moody’s Investors Service as a reflection of their essentiality to state government operations. As of June 30, 2000 the state’s publicly offered equipment certificates of participation were rated “Aa3” by Moody’s Investors Service which relies on the centralized oversight of the Office of the State Treasurer and the Office of Financial Management as a strong credit element in the rating. On October 5, 2000 Moody’s Investors Service upgraded the lease-purchase program’s equipment certificates of participation from Aa3 to Aa2. The new rating reflects several factors, including historically sound financial performance, favorable economic conditions in Washington State, and the essentiality of equipment financed.

On September 1, 1998, the state Lease-Purchase program was extended to enable local government to participate in low cost financing of essential equipment (Local Option Capital Asset Lending Program (LOCAL)). The program allows local participants to pool their financing requests together with Washington state agencies for lower tax-exempt interest rates, a rating of “Aa2” from Moody’s, and standardized documentation. The LOCAL program is authorized to begin financing real property for local governments on July 1, 2000. Local governments are expected to have an increasing share of the total volume of transactions financed.

As of June 30, 2000, there were outstanding \$475.8 million of certificates of participation. Underlying this amount were \$463.2 million for 51 state agencies and \$11.8 million for 76 local agencies, for a total of \$474.0 million, with the balance on deposit with the trustee either for use in the program or to satisfy reserve requirements. These programs are currently funded from public offering of certificates of participation through a competitive bid process.

During the 1999 legislative session, the Washington State Legislature passed Senate Joint Resolution 8206, effectively creating a Washington state school district credit enhancement program. The program’s purpose is to provide savings to state taxpayers by pledging the full faith and credit of the state of Washington to the payment of voter-approved school district general obligation bonds.

The approved legislation carried two components: 1) a constitutional amendment to clarify that the state is pledging its full faith and credit to bonds issued under the program; and 2) implementing language for the guarantee program. Since the program authorization required a constitutional amendment, the proposed law was submitted to a vote of the electorate. Washington voters passed the constitutional amendment in November 1999 by a vote of 60 percent to 40 percent. The program is authorized in Chapter 39.98 RCW.

The School Bond Guarantee Program was developed under the direction of the State Treasurer. The Treasurer convened an Advisory Group to assist in legal drafting, policy discussions and legislative strategy. The Advisory Group included staff members from the Office of the State Treasurer, statewide school district representatives, assistant attorney general, bond lawyers and financial advisors. Administrative rules were entered into the Washington Administrative Code for program management.

The State Treasurer introduced the new school bond credit enhancement program in March 2000. The program was well accepted by schools across the state. At the end of Fiscal Year 2000, the state had guaranteed 19 school districts' voter-approved general obligation debt with a total outstanding principal of \$215.7 million.

During the past 16 years, the State Finance Committee has undertaken refunding operations to reduce interest costs on outstanding state indebtedness. Fiscal Year 2000 operations involved the sale of \$99.31 million various purpose general obligation refunding bonds to refund bonds issued at average coupons of 4.62 percent to 5.18 percent. True interest costs on the refunding bonds ranged from 4.702 percent to 4.746 percent. Economic savings were achieved on the refunding transaction. Gross or nominal savings over the life of the refunded issue was \$10.08 million and present value savings were \$8.42 million – a ratio of present value savings to new issue size of 8.427 percent. Over the course of the 16 year refunding effort, gross savings from all refunding transactions to date have amounted to \$394.04 million or \$263.88 million on a present value basis.

Interest rates in the tax-exempt bond market continued to be attractive for long-term borrowing during Fiscal Year 2000. Over the fiscal year, \$775.25 million in new money general obligation and motor vehicle fuel tax general obligation bonds were sold in September 1999 (5.46 percent and 6.38 percent), February 2000 (5.90 percent and 5.96 percent), and April 2000 (5.37 percent and 6.02 percent). The rates for the \$196.4 million outstanding in adjustable rate general obligation bonds have varied between 2.65 percent and 5.85 percent, with an average rate of 3.70 percent for the Fiscal Year 2000.

Outstanding general and limited obligation bonded debt as of June 30, 2000 totaled \$7.28 billion, an increase of 5.73 percent over June 30, 1999. Bonds were issued primarily for various capital projects throughout the state.

During Fiscal Year 2000, the state continued with its Selective Redemption Program, which takes advantage of a feature of the state's \$196.4 million outstanding variable rate debt that allows for selectively retiring any other higher cost long term fixed rate debt in the state's portfolio. For Fiscal Year 2000, the Selective Redemption Program generated \$7.36 million in gross savings over the life of the bonds – with present value savings of \$0.49 million.

The following table presents a summary of general obligation bonds issued during Fiscal Year 2000:

**State of Washington
General Obligation Bonds Issuance
Fiscal Year 2000**

<u>Issue</u>	<u>Series/Date</u>	<u>True Interest Cost</u>	<u>Par Value</u>
<i>June 23, 1999 Issue (dated 7/1/1999)</i>			
<i>Various Purpose General Obligation Refunding Bonds</i>			
	Series R-2000A	4.7000212%	\$ 80,570,000
<i>Motor Vehicle Fuel Tax General Obligation Refunding Bonds</i>			
	Series R-2000B	4.7439917%	18,740,000
<i>September 29, 1999 Issue</i>			
<i>Various Purpose General Obligation Bonds</i>			
	Series 2000A	5.6858763%	273,500,000
<i>General Obligation Bonds (State Housing Trust Fund)</i>			
	Series 2000T (Taxable)	6.3782994%	26,500,000
<i>February 8, 2000 Issue</i>			
<i>Various Purpose General Obligation Bonds</i>			
	Series 2000B	5.8955963%	253,000,000
<i>Motor Vehicle Fuel Tax General Obligation Bonds</i>			
	Series 2000C	5.9600334%	27,000,000
<i>April 18, 2000 Issue</i>			
<i>General Obligation Bonds</i>			
	Series 2000S-4 (Stadium)	5.3660386%	124,755,000
<i>General Obligation Bonds</i>			
	Series 2000S-5 (Stadium)		
	Zero Coupon Bonds	6.0161627%	<u>70,497,819</u>
Fiscal Year 2000 Total.....			<u>\$ 874,562,819</u>

General obligation debt is subject to statutory limitations as prescribed by the Washington State Constitution and the Revised Code of Washington. For the fiscal year that ended June 30, 2000, the maximum debt authorization subject to limitation was \$5.16 billion. This limit does not include motor vehicle fuel tax debt, limited obligation debt, or reimbursable debt exempt from the statutory debt limit.

The ratio of general long-term debt to market value and the amount of bonded debt per capita are useful indicators of the state's debt position. These ratios as of June 30, 2000 are as follows:

	Dollars in Millions	Ratio of Debt to Market Value	Debt per Capita
General Long-Term Bonded Debt (Excluding Accreted Interest)	\$7,278	1.61%	\$1,250

Cash Management

State statutes provide that certain excess cash balances in the state treasury may be invested by the Office of the State Treasurer through the use of the Cash Management Account. Specifically excluded from the Cash Management Account are pension funds, workers' compensation funds, the Local Government Investment Pool, and certain dedicated permanent funds.

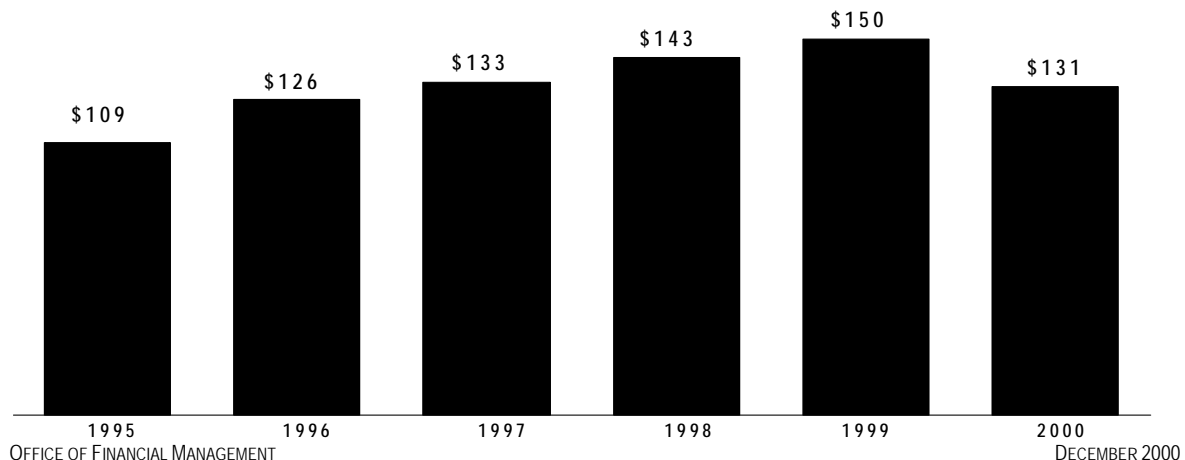
Investment transactions by the Office of the State Treasurer during Fiscal Year 2000 were limited to U.S. Treasury and Agency securities, repurchase agreements, securities lending, certificates of deposit with qualified public depositories, and commercial paper.

Total earnings from investment of the Cash Management Account balances for Fiscal Year 2000 were \$130.7 million, representing a 13.1 percent decrease from Fiscal Year 1999. This decrease resulted primarily from a decline in the balances invested.

Earnings on Investments

Cash Management Account

For the Fiscal Years that ended June 30, 1995 through 2000
(Millions of Dollars)



Insurance Activities

The state has three insurance programs operated and accounted for as insurance businesses. Notes 1.L and 9 to the financial statements disclose the specific programs and claims liability changes during Fiscal Year 2000 for each insurance program.

Liabilities of the workers' compensation insurance activity amount to \$13.6 billion as of June 30, 2000. The liability includes \$6.6 billion for supplemental pension cost of living adjustments (COLA) that, by statute, are not to be fully funded. This COLA is funded on a pay-as-you-go basis, and the Department of Labor and Industries actuaries have indicated that future premium payments will be sufficient to pay these claims as they come due. The remaining \$7.0 billion in claims liability is fully funded by \$8.5 billion of long-term investments, net of obligations under securities lending agreements, held for payment of claims.

The risk management insurance activity liabilities amount to \$240.2 million as of June 30, 2000. This liability is currently funded by \$55.7 million in cash equivalents.

State employees' insurance activities have liabilities as of June 30, 2000 amounting to \$35.3 million which are fully funded with cash and investments, net of obligations under securities lending agreements.

Other Information

Independent Audit

State statutes require an annual audit by the Office of the State Auditor. The State Auditor is an independently elected public official. The state is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

The State Auditor conducts the audit of all state agencies. In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the federal single audit. The Auditor's report on the general purpose financial statements is included in the financial section of this report. The Auditor's report related to the single audit, including the schedule of federal financial assistance, findings and recommendations, and reports on internal control structure and compliance with applicable laws and regulations, will be published in a separate report. Copies may be obtained from the Office of the State Auditor, Legislative Building, PO Box 40021, Olympia, Washington 98504-0021.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Washington State for its Comprehensive Annual Financial Report for the fiscal year that ended June 30, 1999. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, with contents conforming to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Washington State has received a Certificate of Achievement for the last thirteen years. The Office of Financial Management considers this report to be in conformance with the Certificate of Achievement Program requirements, and will submit it to the GFOA.

Acknowledgment

The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of each state agency and institution of higher education, and the Office of Financial Management.

This Comprehensive Annual Financial Report reflects the commitment of the Governor to the Legislature, the citizens of Washington State, and the financial community to maintain financial statements in conformance with the highest standards of financial accountability.

Sincerely,

Marty Brown
Director